

CITY OF DOVER, NEW HAMPSHIRE

Financial Statements

For the Year Ended June 30, 2002

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Dover, New Hampshire

We have audited the accompanying general purpose financial statements of the City of Dover, New Hampshire as of June 30, 2002 and for the year then ended. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the General Fixed Asset Group of Accounts, as required by generally accepted accounting principles. The amount that should be recorded in the General Fixed Asset Account Group has not been determined.

In our opinion, except for the effects of the item described in the third paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Dover, New Hampshire, as of June 30, 2002 and the results of its operations and cash flows of its proprietary fund types and similar trust fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Dover, New Hampshire. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with Government Auditing Standards, we also have issued our report dated August 21, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Melanson Heath + Company P.C.

Nashua, New Hampshire
August 21, 2002

CITY OF DOVER, NEW HAMPSHIRE

Combined Balance Sheet -
All Fund Types and Account Group

June 30, 2002

| | Governmental Fund Types | | | Proprietary Fund Types | | Fiduciary Fund Types | | Account Group General Long-Term Debt | Totals (Memorandum Only) |
|---|-------------------------|-----------------|-----------------|------------------------|------------------|----------------------|---------------|--------------------------------------|--------------------------|
| | General | Special Revenue | Capital Project | Enterprise | Internal Service | Trust and Agency | Term Debt | | |
| ASSETS | | | | | | | | | |
| Cash | \$ 5,321,211 | \$ - | \$ - | \$ 600 | \$ - | \$ 41,721 | \$ - | \$ - | \$ 5,363,532 |
| Investments | 12,152,698 | - | - | - | - | 3,530,915 | - | - | 15,683,613 |
| Taxes receivable | 1,795,409 | - | - | - | - | - | - | - | 1,795,409 |
| Accounts receivable: | | | | | | | | | |
| User charges | - | - | - | 725,414 | 94,091 | - | - | - | 819,505 |
| Other | 30,930 | 100,956 | 31,000 | - | - | 215,200 | - | - | 378,086 |
| Unbilled revenue | - | - | - | 168,142 | - | - | - | - | 168,142 |
| Notes receivable | - | 642,127 | - | - | - | - | - | - | 642,127 |
| Due from other governments | 301,128 | 843,941 | - | 8,543,819 | - | - | - | - | 9,688,888 |
| Due from other funds | 1,338,960 | 1,540,930 | 3,941,832 | 6,779,277 | 721,461 | 792,306 | - | - | 15,114,766 |
| Advance to other funds | 944,236 | - | - | - | - | - | - | - | 944,236 |
| Inventories | - | 32,969 | - | 206,246 | 56,495 | - | - | - | 295,710 |
| Investment in land | - | - | - | 1,043,641 | 11,404 | - | - | - | 1,043,641 |
| Other assets | 20,566 | - | - | - | - | - | - | - | 31,970 |
| Property, plant and equipment, net | - | - | - | 51,566,654 | - | - | - | - | 51,566,654 |
| Amounts to be provided for retirement of general long-term debt and other liabilities | - | - | - | - | - | - | - | - | - |
| Total Assets | \$ 21,905,138 | \$ 3,160,923 | \$ 3,972,832 | \$ 69,033,793 | \$ 883,451 | \$ 4,580,142 | \$ 54,340,356 | \$ 54,340,356 | \$ 157,876,635 |
| LIABILITIES AND FUND EQUITY | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Accounts payable | \$ 495,925 | \$ 23,719 | \$ 120,306 | \$ 165,121 | \$ 45,587 | \$ 407,979 | \$ - | \$ - | \$ 1,258,637 |
| Accrued liabilities | 1,427,031 | 61,347 | - | 533,609 | 521,850 | 7,368 | 2,708,764 | - | 5,259,969 |
| Deferred revenue | 861,261 | 660,349 | - | 120 | - | - | - | - | 1,521,730 |
| Due to other funds | 13,403,906 | 855,245 | 483,715 | 371,900 | - | - | - | - | 15,114,766 |
| Advance from other funds | - | - | - | 944,236 | - | - | - | - | 944,236 |
| Retainage payable | - | - | 113,006 | 69,069 | - | - | - | - | 182,075 |
| Other liabilities | 12,532 | - | 898 | - | - | - | - | - | 13,430 |
| General obligation bonds payable | - | - | - | 22,226,798 | - | - | 40,615,579 | - | 62,842,377 |
| Liability for hazardous waste-site cleanup | - | - | - | - | - | - | - | - | - |
| Total Liabilities | 16,200,655 | 1,600,660 | 717,925 | 24,310,853 | 567,437 | 415,347 | 11,016,013 | 54,340,356 | 98,153,233 |
| Fund Equity: | | | | | | | | | |
| Contributed capital | - | - | - | 28,402,122 | - | - | - | - | 28,402,122 |
| Retained earnings: | | | | | | | | | |
| Unreserved | - | - | - | 16,320,818 | 316,014 | - | - | - | 16,636,832 |
| Fund balances: | | | | | | | | | |
| Reserved for | | | | | | | | | |
| Encumbrances | 703,744 | 193,662 | 3,867,715 | - | - | - | - | - | 4,765,121 |
| Advances | 944,236 | - | - | - | - | - | - | - | 944,236 |
| Other purposes | 191,250 | 28,938 | - | - | - | 1,642,919 | - | - | 1,863,107 |
| Expenditures | 259,577 | - | - | - | - | - | - | - | 259,577 |
| Unreserved | 3,605,676 | 1,337,663 | (612,808) | - | - | 2,521,876 | - | - | 6,852,407 |
| Total Fund Equity | 5,704,483 | 1,560,263 | 3,254,907 | 44,722,940 | 316,014 | 4,164,795 | - | - | 59,723,402 |
| Total Liabilities and Fund Equity | \$ 21,905,138 | \$ 3,160,923 | \$ 3,972,832 | \$ 69,033,793 | \$ 883,451 | \$ 4,580,142 | \$ 54,340,356 | \$ 54,340,356 | \$ 157,876,635 |

See accompanying notes to financial statements.

CITY OF DOVER, NEW HAMPSHIRE
Combined Statement of Revenues, Expenditures and
Changes in Fund Balance -
All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2002

| | Governmental Fund Types | | | Fiduciary Fund Type | Totals |
|--|-------------------------|--------------------|--------------------|---------------------|----------------------|
| | General | Special Revenue | Capital Project | Expendable Trust | (Memorandum Only) |
| Revenues: | | | | | |
| Taxes | \$ 35,585,882 | \$ 173,317 | \$ - | \$ - | \$ 35,759,199 |
| Licenses and permits | 3,944,619 | - | - | - | 3,944,619 |
| Use of money and property | - | - | 217,417 | 86,254 | 303,671 |
| Intergovernmental | 1,766,065 | 4,038,970 | 166,820 | - | 5,971,855 |
| Current services | 1,030,036 | 1,627,738 | - | 422,382 | 3,080,156 |
| Education | 10,758,527 | 245,123 | - | - | 11,003,650 |
| Miscellaneous | 680,805 | 621,380 | - | 866,361 | 2,168,546 |
| Total Revenues | 53,765,934 | 6,706,528 | 384,237 | 1,374,997 | 62,231,696 |
| Expenditures: | | | | | |
| Current Operations: | | | | | |
| General government | 3,007,590 | 41,688 | - | 3,243 | 3,052,521 |
| Public safety | 7,762,936 | 1,253,614 | - | - | 9,016,550 |
| Public works | 3,538,122 | 620,546 | - | 116,512 | 4,275,180 |
| Culture and recreation | 1,926,516 | 43,040 | - | 187,793 | 2,157,349 |
| Education | 27,208,695 | 4,173,550 | - | 8,881 | 31,391,126 |
| Human services | 550,038 | 591,556 | - | - | 1,141,594 |
| Intergovernmental | 3,666,619 | - | - | - | 3,666,619 |
| Capital Outlay | - | - | 7,596,771 | - | 7,596,771 |
| Debt Service: | | | | | |
| Principal | 4,006,958 | - | - | - | 4,006,958 |
| Interest | 1,700,213 | - | - | - | 1,700,213 |
| Total Expenditures | 53,367,687 | 6,723,994 | 7,596,771 | 316,429 | 68,004,881 |
| Excess (deficiency) of revenues over expenditures | 398,247 | (17,466) | (7,212,534) | 1,058,568 | (5,773,185) |
| Other Financing Sources (Uses): | | | | | |
| Bond proceeds | - | - | 1,229,000 | - | 1,229,000 |
| Operating transfers in | 32,000 | 372,685 | 127,096 | 592,244 | 1,124,025 |
| Operating transfers out | (412,588) | - | - | (854,192) | (1,266,780) |
| Total Other Financing Sources (Uses) | (380,588) | 372,685 | 1,356,096 | (261,948) | 1,086,245 |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 17,659 | 355,219 | (5,856,438) | 796,620 | (4,686,940) |
| Fund Equity, July 1, 2001 | 5,686,824 | 1,205,044 | 9,111,345 | 1,725,256 | 17,728,469 |
| Fund Equity, June 30, 2002 | \$ 5,704,483 | \$ 1,560,263 | \$ 3,254,907 | \$ 2,521,876 | \$ 13,041,529 |

See accompanying notes to financial statements.

CITY OF DOVER, NEW HAMPSHIRE

Statement of Revenues and Other Financing Sources,
and Expenditures and Other Financing Uses -
Budget and Actual - General Fund - Budget Basis

For the Year Ended June 30, 2002

| | Amended <u>Budget</u> | Adjusted <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|--------------------------|---------------------------|--|
| Revenues and Other Sources: | | | |
| Taxes | \$ 35,591,431 | \$ 35,614,161 | \$ 22,730 |
| Licenses and permits | 3,266,107 | 3,944,619 | 678,512 |
| Intergovernmental | 1,758,325 | 1,766,065 | 7,740 |
| Current services | 1,085,762 | 1,030,036 | (55,726) |
| Education | 10,952,094 | 10,758,527 | (193,567) |
| Other revenue | 819,118 | 680,805 | (138,313) |
| Operating transfers in | <u>32,000</u> | <u>32,000</u> | <u>-</u> |
| Total Revenues and Other Sources | 53,504,837 | 53,826,213 | 321,376 |
| Expenditures and Other Uses: | | | |
| General government | 3,080,336 | 3,050,332 | 30,004 |
| Police | 4,590,738 | 4,522,997 | 67,741 |
| Fire | 3,655,843 | 3,562,875 | 92,968 |
| Community services - public works | 3,640,913 | 3,547,825 | 93,088 |
| Community services - recreation | 1,082,573 | 1,069,254 | 13,319 |
| Library | 913,534 | 890,818 | 22,716 |
| Human services | 568,297 | 548,829 | 19,468 |
| Education | 27,670,695 | 27,358,440 | 312,255 |
| Debt service | 5,710,289 | 5,685,921 | 24,368 |
| Intergovernmental | <u>3,666,619</u> | <u>3,666,619</u> | <u>-</u> |
| Total Expenditures and Other Uses | <u>54,579,837</u> | <u>53,903,910</u> | <u>675,927</u> |
| Excess of revenues and other sources over expenditures and other uses | \$ <u>(1,075,000) *</u> | \$ <u>(77,697)</u> | \$ <u>997,303</u> |

*Represents budgetary use of Fund Balance voted by City Council.

See accompanying notes to financial statements.

CITY OF DOVER, NEW HAMPSHIRE

Statement of Revenues and Other Financing Sources,
and Expenditures and Other Financing Uses -
Budget and Actual - Annually Budgeted Special Revenue Funds - Budget Basis

For the Year Ended June 30, 2002

| | Amended Budget | Adjusted Actual | Variance Favorable (Unfavorable) |
|--|-------------------|--------------------|--|
| Revenues: | | | |
| Intergovernmental | | | |
| Community Development Block Grant | \$ 450,000 | \$ 347,289 | \$ (102,711) |
| DOE federal grants | 2,062,000 | 1,976,366 | (85,634) |
| School special programs and grants | 190,000 | 261,394 | 71,394 |
| Emergency management | 12,803 | - | (12,803) |
| Youth tobacco & alcohol awareness | 79,523 | 64,284 | (15,239) |
| Police grants and programs | 604,617 | 474,531 | (130,086) |
| Current services | | | |
| Community Development Block Grant | 6,600 | 7,245 | 645 |
| School cafeteria fund | 978,729 | 1,036,599 | 57,870 |
| Parking fund | 112,750 | 106,799 | (5,951) |
| Residential solid waste | 2,081,869 | 665,052 | (1,416,817) |
| School tuition programs | 163,000 | 235,733 | 72,733 |
| School facilities | 15,000 | 31,016 | 16,016 |
| Miscellaneous revenue | | | |
| Community Development Block Grant | 4,002 | 3,993 | (9) |
| Parking fund | 121,450 | 137,508 | 16,058 |
| Library fines | 25,000 | 31,551 | 6,551 |
| Emergency management | 12,803 | 12,803 | - |
| School facilities | 120,000 | 62,693 | (57,307) |
| Police grants and programs | 359,464 | 306,611 | (52,853) |
| Recreation field maintenance | 40,804 | 24,157 | (16,647) |
| Total Revenues | 7,440,414 | 5,785,624 | (1,654,790) |
| Expenditures and Other Uses: | | | |
| General government | | | |
| Community Development Block Grant | 484,761 | 470,572 | 14,189 |
| Public safety | | | |
| Emergency management | 25,606 | - | 25,606 |
| Parking fund | 253,541 | 237,296 | 16,245 |
| Police grants and programs | 964,081 | 717,284 | 246,797 |
| Public works | | | |
| Residential solid waste | 2,105,184 | 635,421 | 1,469,763 |
| Recreation field maintenance | 40,804 | 16,940 | 23,864 |
| Culture and recreation | | | |
| Library fines | 25,092 | 16,708 | 8,384 |
| Education | | | |
| School cafeteria fund | 978,729 | 1,082,949 | (104,220) |
| DOE federal grants | 2,062,000 | 1,961,037 | 100,963 |
| School special programs and grants | 190,000 | 266,198 | (76,198) |
| School tuition | 163,000 | 235,350 | (72,350) |
| School facilities | 135,000 | 100,051 | 34,949 |
| Human services | | | |
| Youth tobacco & alcohol awareness | 79,523 | 71,334 | 8,189 |
| Total Expenditures and Other Uses | 7,507,321 | 5,811,140 | 1,696,181 |
| Excess of revenues and other financing sources over expenditures and other uses | \$ (66,907) | \$ (25,516) | \$ 41,391 |

See accompanying notes to financial statements.

CITY OF DOVER, NEW HAMPSHIRE

Combined Statement of Revenues, Expenses and
Changes in Retained Earnings/Fund Balance -
All Proprietary Fund Types and Similar Trust Funds

For the Year Ended June 30, 2002

| | <u>Proprietary Fund Types</u> | | <u>Fiduciary Fund Type</u> | <u>Totals</u> |
|---|-------------------------------|-----------------------------|---------------------------------|------------------------------|
| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Non-Expendable Trust</u> | <u>(Memorandum Only)</u> |
| Operating Revenues: | | | | |
| Charges for services | \$ 5,871,507 | \$ 1,112,691 | \$ - | \$ 6,984,198 |
| Other | <u>163,637</u> | <u>-</u> | <u>-</u> | <u>163,637</u> |
| Total Operating Revenues | 6,035,144 | 1,112,691 | - | 7,147,835 |
| Operating Expenses: | | | | |
| Personnel services | 2,001,064 | 158,780 | - | 2,159,844 |
| Supplies and materials | 537,473 | 23,482 | - | 560,955 |
| Charges and services | 740,226 | 378,276 | - | 1,118,502 |
| Utilities | 815,407 | - | - | 815,407 |
| Capital outlay | 106,422 | 76,605 | - | 183,027 |
| Depreciation | 2,388,479 | - | - | 2,388,479 |
| Cost of sales | <u>71,711</u> | <u>164,731</u> | <u>-</u> | <u>236,442</u> |
| Total Operating Expenses | <u>6,660,782</u> | <u>801,874</u> | <u>-</u> | <u>7,462,656</u> |
| Operating income (loss) | (625,638) | 310,817 | - | (314,821) |
| Non-operating Revenues (Expenses): | | | | |
| Interest revenue | - | - | 144,486 | 144,486 |
| Interest expense | (1,386,763) | - | (231,322) | (1,618,085) |
| Intergovernmental revenue | 565,334 | - | - | 565,334 |
| Additions to trust principal | <u>-</u> | <u>-</u> | <u>13,010</u> | <u>13,010</u> |
| Total Non-operating Revenues (Expenses) | <u>(821,429)</u> | <u>-</u> | <u>(73,826)</u> | <u>(895,255)</u> |
| Income (loss) before operating transfers | (1,447,067) | 310,817 | (73,826) | (1,210,076) |
| Other Financing Sources (Uses): | | | | |
| Transfers in (see note 18) | 735,000 | - | - | 735,000 |
| Transfers out | <u>(592,245)</u> | <u>-</u> | <u>-</u> | <u>(592,245)</u> |
| Total Other Financing (Uses) | <u>142,755</u> | <u>-</u> | <u>-</u> | <u>142,755</u> |
| Net income (loss) | (1,304,312) | 310,817 | (73,826) | (1,067,321) |
| Add depreciation on contributed assets | <u>1,826,531</u> | <u>-</u> | <u>-</u> | <u>1,826,531</u> |
| Increase (decrease) in retained earnings and fund balances | 522,219 | 310,817 | (73,826) | 759,210 |
| Retained earnings/fund balance, July 1, 2001 | <u>15,798,599</u> | <u>5,197</u> | <u>1,716,745</u> | <u>17,520,541</u> |
| Retained earnings/fund balance, June 30, 2002 | <u>\$ 16,320,818</u> | <u>\$ 316,014</u> | <u>\$ 1,642,919</u> | <u>\$ 18,279,751</u> |

See accompanying notes to financial statements.

CITY OF DOVER, NEW HAMPSHIRE

Combined Statement of Cash Flows
All Proprietary Fund Types and Similar Trust Funds

For the Year Ended June 30, 2002

| | Proprietary Fund Types | | Fiduciary Fund Type |
|---|------------------------|------------------|----------------------|
| | Enterprise | Internal Service | Non-Expendable Trust |
| Cash Flows From Operating Activities: | | | |
| Operating income (loss) | \$ (625,638) | \$ 310,817 | \$ - |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense | 2,388,479 | - | - |
| (Increase) Decrease in Current Assets: | | | |
| Accounts receivable | 733,034 | 1,548 | - |
| Unbilled revenue | (31,439) | - | - |
| Inventory | (61,500) | (6,806) | - |
| Due from other funds | 1,185,378 | (89,129) | - |
| Due from other governments | 853,915 | - | - |
| Other | 69,174 | (11,404) | - |
| Increase (Decrease) in Current Liabilities: | | | |
| Accounts payable | (391,507) | 16,759 | - |
| Accrued liabilities | (14,379) | (221,785) | - |
| Retainage payable | (128,825) | - | - |
| Deferred revenue | (18,244) | - | - |
| Due to other funds | 371,900 | - | - |
| Net Cash Provided (Used) By Operating Activities | 4,330,348 | - | - |
| Cash Flows From Investing Activities: | | | |
| Net sale of investments | - | - | 73,826 |
| Interest revenue | - | - | 144,486 |
| Net Cash Provided (Used) By Investing Activities | - | - | 218,312 |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Proceeds from bonds | 1,011,600 | - | - |
| Non-operating transfer in | 735,000 | - | - |
| Payment of bonds | (3,125,283) | - | - |
| Interest expense | (1,386,763) | - | (231,322) |
| Purchase of fixed assets | (2,153,035) | - | - |
| Net Cash Provided By Capital and Related Financing Activities | (4,918,481) | - | (231,322) |
| Cash Flows From Non-Capital Financing Activities: | | | |
| Intergovernmental revenue | 565,334 | - | - |
| Contributions | - | - | 13,010 |
| Current capital contributions | 295,800 | - | - |
| Advance from other funds | 318,960 | - | - |
| Operating transfer out | (592,245) | - | - |
| Net Cash Provided (Used) by Non-Capital Financing Activities | 587,849 | - | 13,010 |
| Net increase (decrease) in cash | (284) | - | - |
| Cash, July 1, 2001 | 884 | - | - |
| Cash, June 30, 2002 | \$ 600 | \$ - | \$ - |

See accompanying notes to the financial statements.

CITY OF DOVER, NEW HAMPSHIRE

Notes to General Purpose Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Dover, New Hampshire (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units except as described in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by a mayor, eight-member council and an appointed City Manager. As required by generally accepted accounting principles, these financial statements present the government, and applicable component units for which the government is considered to be financially accountable. In fiscal year 2002, it was determined that no entities met the required GASB-14 criteria of component units.

B. Basis of Presentation - Fund Accounting

For reporting purposes, the financial activities of the City are accounted for through the use of several funds and account groups. Each fund is a separate accounting entity with self-balancing accounts. The following types of funds and account groups are used by the City:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in fiduciary and proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental fund types:

General Fund - To account for all financial activities of the City, except those required to be accounted for in another fund. Most revenues and expenditures of a general governmental nature are accounted for in this fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for special purposes.

Capital Project Funds - Transactions related to resources obtained and used for the acquisition, construction, or improvement of major capital facilities are accounted for in capital project funds. Such resources are derived principally from proceeds of general obligation bond issues and from Federal and State grants.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following are the City's proprietary fund types:

Enterprise Funds - To account for operations which are supported primarily by user charges.

Internal Service Funds - To account for goods or services provided by one City department or agency to other City departments or agencies.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity. The City maintains the following fiduciary fund types:

Expendable Trust Funds - These funds are accounted for in essentially the same manner as governmental funds.

Non-Expendable Trust Funds - These funds are used to account for assets held by the City in a trustee capacity. The principal balance cannot be spent; however, investment earnings may be spent for intended purposes.

Agency Funds - These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Group

Account groups are used to establish accounting control and accountability for the City's general long-term obligations. The following is the City's account group:

General Long-Term Debt Account Group - This account group is used to account for all long-term obligations of the City, except for debt issued through proprietary funds.

C. Basis of Accounting

The basis of accounting used for each fund is as follows:

Modified Accrual Basis (Governmental, Expendable Trust and Agency Funds)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is applied in all governmental, expendable trust and agency fund types. Accordingly, revenues are recorded when susceptible to accrual, that is both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property tax revenue available if received within 60 days after the close of the fiscal year. All other amounts not received during that period are deferred and recognized in future accounting periods.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues: (1) revenues recognized based upon the expenditures recorded, and (2) revenues recognized at the time of receipt or earlier, if the susceptible to accrual criteria is met. Other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures, except for interest on long-term debt which is recorded when due, landfill closure and postclosure costs, and vacation and pension costs because these amounts are not expected to be relieved within the current accounting period, are recorded when the related fund liability is incurred.

Accrual Basis (Proprietary and Non-Expendable Trust Funds)

All proprietary and non-expendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is used by proprietary and nonexpendable trust funds. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The City has elected to apply to these funds, accounting principles applicable to the private sector issued through November 30, 1989, unless those principles conflict with or contradict pronouncements of the Governmental Accounting Standards Board.

D. Cash

The government's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Under the statutes of the State of New Hampshire, the City may invest excess funds in short-term obligations of the U.S. Government, in deposits with savings banks incorporated in the state, or in certificates of deposits of state incorporated banks, national banks incorporated in New Hampshire or Massachusetts, or the New Hampshire Public Deposit Investment Pool. The City has developed a formal investment policy outlining criteria to determine qualified financial institutions and investment in certificates of deposit, repurchase agreements, and U.S. Treasury bills. All investments are made under this policy.

E. Investments

Investments are reported at market value.

Under New Hampshire law, "the trustees shall have the custody of all trust funds held by their city or town. The funds shall be invested only by deposit in some savings bank or in the savings department of a national bank or trust company in this state, or in shares of any building and loan association or co-operative bank, incorporated and doing business under the laws of this state, or in the shares of any federal savings and loan association, located and doing business in this state, or in bonds, notes or

other obligations of the United States government, or in state, country, town, city, school district, water and sewer district bonds and the notes or towns or cities in this state; and such stock and bonds as are legal for investment by New Hampshire savings banks and when so invested, the trustees shall not be liable for the loss thereof; and in any common trust fund established by the New Hampshire Charitable Foundation in accordance with RSA 292:23. The trustees may retain investments as received from donors, until the maturity thereof. Investments of any one type or in any one institution may not exceed \$ 10,000 or 10 percent except for deposits in savings banks, or in the savings department of a national bank or trust company in this state, or in shares of any building and loan association or co-operative bank, incorporated and doing business under the laws of this state, or in the shares of any federal savings and loan association, located and doing business in this state, or in obligations of the United States and of the state of New Hampshire and its subdivisions; or in participation units of any common trust funds established by the New Hampshire Charitable Foundation in accordance with RSA 292:23."

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds": (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds, to indicate the portion not available for appropriation and not available as expendable financial resources.

G. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Purchases of inventory are recorded in the enterprise and internal service funds as assets when the related inventory items are acquired and as expenses when the related inventory items are used. The costs of governmental fund type inventories are recorded as expenditures at the time of purchase ("purchase method"). No significant inventory balances were on hand in governmental funds at June 30, 2002.

H. Fixed Assets

Property, plant and equipment in the proprietary funds of the government are recorded at cost. Property, plant and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

| | |
|-----------------------------------|---------------|
| Buildings | 25 - 50 years |
| Improvements other than buildings | 3 - 50 years |
| Machinery and equipment | 5 - 15 years |

I. Long-Term Obligations

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

J. Accrued Employee Benefits

Depending on the union, employees may be compensated for unused amounts of sick leave earned prior to June 30, 1993, ranging from 25% to 75% of accumulated time. Effective June 30, 1993, all non-education employees are awarded sick leave at a rate of 10 days per year, which lapses at year end. Employees earn vacation leave as they provide services. Employees may carry over earned vacation days with some limitations (usually sixty days) and use compensatory time for unused balances upon termination with some limitations, usually 30 days.

During fiscal year 2002, the City began funding the current vested portion of vacation and sick time for non-enterprise fund employees by establishing a capital reserve in the expendable trust fund with an initial transfer of \$ 482,477. The vested portion attributable to enterprise fund employees has been recorded in the respective fund.

K. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to

change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

L. Encumbrance Accounting and Reporting

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities.

M. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

2. Departures from Generally Accepted Accounting Principles

The significant departures of the City's financial statements from generally accepted accounting principles are as follows:

- General fixed asset acquisitions are not capitalized in a general fixed asset group of accounts.

3. Stewardship, Compliance and Accountability

A. Budgetary Information

The City Manager submits his proposed operating budget to the City Council on or before April 1. The operating budget includes proposed expenditures and the means of financing them. Annual budgets are adopted for the general fund, various special revenue funds, and proprietary funds. Public hearings are conducted to obtain comments on the proposed budget. The final budget must be adopted by June 15, but not earlier than seven days after a public hearing. A separate public hearing is held on the portion of the budget submitted by the School Committee.

The City Manager, with Council approval, may transfer budgeted amounts between non-school departments, and the head of the School Department may transfer budget amounts within the department. The City Council

may, after public hearings, appropriate additional amounts. The City Council must designate the source of such funds except for emergency situations. All unencumbered appropriations, except those for capital expenditures or dedicated funds, lapse at the end of the fiscal year. Appropriation for capital expenditures remains in force for three years or until their purpose has been accomplished or abandoned.

B. Budget/GAAP Reconciliation

The budgetary data for the general and special revenue funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund and various special revenue funds are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The general fund appropriation appearing on page 5 has been calculated as follows:

| | |
|-----------------------------|----------------------|
| Original appropriations | \$ 54,510,607 |
| Supplemental appropriations | <u>69,230</u> |
| Total Appropriation | \$ <u>54,579,837</u> |

The following schedule reconciles the amounts on the Combined Statement of Revenues, Expenditures and Changes in Fund Equity to the amounts on the Combined Statement of Revenues, Expenditures and Other Financing Sources and Uses - Budget to Actual:

| | <u>Revenues and other financing sources</u> | <u>Expenditures and other financing uses</u> | <u>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</u> |
|---|---|--|---|
| <u>General Fund</u> | | | |
| GAAP basis | \$ 53,765,934 | \$ 53,367,687 | \$ 398,247 |
| Other financing sources (uses), as reported on page 4 | 32,000 | 412,588 | (380,588) |
| To adjust property tax revenue to accrual basis | 28,279 | - | 28,279 |

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| | Revenues and other <u>financing sources</u> | Expenditures and other <u>financing uses</u> | Excess (deficiency) of revenues and other financing sources over (under) expenditures and other <u>financing uses</u> |
|--|---|--|--|
| To reverse the expenditure of prior year encumbrances | - | (464,209) | 464,209 |
| To record year end encumbrances | - | 609,094 | (609,094) |
| To reverse amortized debt | <u>-</u> | <u>(21,250)</u> | <u>21,250</u> |
| Budgetary Basis | \$ <u>53,826,213</u> | \$ <u>53,903,910</u> | \$ <u>(77,697)</u> |
| <u>Special Revenue Funds</u> | | | |
| GAAP basis | \$ 7,079,213 | \$ 6,723,994 | \$ 355,219 |
| Special revenue funds previously budgeted or not governed by annual budget | <u>(1,293,589)</u> | <u>(912,854)</u> | <u>380,735</u> |
| Budgetary Basis | \$ <u>5,785,624</u> | \$ <u>5,811,140</u> | \$ <u>(25,516)</u> |

In addition, adjustments are made to the proprietary funds to conform to the budgetary basis, primarily for the omission of depreciation expense which is not budgeted, and the inclusion of principal debt service and capital expenses which are budgeted expenses.

C. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following areas:

| | |
|------------------------------------|-------------|
| Enterprise: | |
| Arena | \$(265,496) |
| Special Revenue Funds: | |
| School Cafeteria Fund | \$(104,220) |
| School Special Programs and Grants | \$(76,198) |
| School Tuition | \$(72,350) |

D. Deficit Fund Equity

The following fund had a deficit as of June 30, 2002:

Special Revenue Funds:

| | |
|-------------------------------------|------------|
| CDBG | \$(72,962) |
| Police - Tobacco | \$(23,424) |
| Youth Res. Councilor | \$(20,608) |
| Police - DOT | \$(10,622) |
| Police - DHA | \$(5,096) |
| Council - Dover Main Street Program | \$(3,156) |

Capital Projects Funds:

| | |
|----------------------|-------------|
| Tolend Road Landfill | \$(332,586) |
|----------------------|-------------|

Enterprise Funds:

| | |
|-------|-------------|
| Arena | \$(873,896) |
| DIDA | \$(9,370) |

The deficits in these funds will be eliminated through future departmental or intergovernmental revenues, bond proceeds and transfers from other funds.

4. Cash and Cash Equivalents

At year end, the City's carrying amount of deposits was \$ 5,363,532 and the bank balance was \$ 6,510,446. Of the bank balance, \$ 100,456 was covered by federal depository insurance or by collateral held by the government's agent in the City's name. The remaining balance was collateralized with securities held by the Federal Reserve Bank of Boston in a joint account of the financial institution and the government in both names.

5. Investments

The City's investments are categorized into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

At year end, the government's investment balances were as follows:

| | Category | | | Carrying Amount |
|---|-------------|-------------|-------------|----------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | |
| Investments not subject to categorization: | | | | |
| Public deposit investment pool | \$ - | \$ - | \$ - | \$ 13,937,489 * |
| Mutual and money market funds | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,746,124</u> |
| Total Investments | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>15,683,613</u> |

* These investments are fully collateralized with collateral held by a third party, and are fully insured by MBIA, Inc.

6. Taxes Receivable

The City bills property taxes semi-annually, in October and April of the following year. Property tax revenues are recognized in the fiscal year for which taxes have been levied to the extent that they become available, i.e., due or receivable within the current fiscal year and collected within the current period or within 60 days of year end.

Property taxes are due no earlier than December 1 and June 1, of the following year and must be due at least 30 days after bills are mailed. At the time of the tax lien, which the City usually places within 60 to 90 days after the second due date, a lien is recorded on the property at the Registry of Deeds. If the property taxes are not paid (redeemed) within two years and one day of the tax lien date, the property could be conveyed to the City by deed and subsequently sold at public auction or sealed bid.

The City annually budgets an amount (overlay for abatements) for property tax abatements and refunds. All abatements and refunds are charged to overlay. Prior to fiscal year 1996, the City was funding all abatement out of the current year appropriation regardless of the levy of the tax. During fiscal year 1996, the City began matching property tax abatements for individual levy years, with the tax revenue earned by the individual levy years.

Taxes receivable at June 30, 2002 are comprised of (in thousands):

| | |
|-------------------|----------|
| Unredeemed taxes: | |
| Levy of 2002 | \$ 1,438 |
| Levy of 2001 | 274 |
| Levy of 2000 | 120 |

(continued)

(continued)

| | |
|---------------------------|-----------------|
| Levy of 1997 | 1 |
| Allowance for abatements | (75) |
| Subtotal | 1,758 |
| Other taxes: | |
| Other miscellaneous taxes | 37 |
| Total | \$ <u>1,795</u> |

7. Notes Receivable

Notes receivable of \$ 642,127 in special revenue funds represent the uncollected balance of community development loans.

8. Interfund Fund Receivables/Payables

The City maintains self-balancing funds; however, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2002 balances in interfund receivable and payable accounts:

| <u>Fund</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> | <u>Advance To Other Funds</u> | <u>Advance From Other Funds</u> |
|-------------------------|---------------------------------|-------------------------------|-----------------------------------|-------------------------------------|
| General | \$ 1,338,960 | \$ 13,403,906 | \$ 944,236 | \$ - |
| Special Revenue: | | | | |
| Housing rehabilitation | 140,488 | - | - | - |
| Economic DELP | 158,303 | - | - | - |
| CDBG | - | 67,858 | - | - |
| Police justice | - | 22,213 | - | - |
| Police DHA | - | 8,638 | - | - |
| Tobacco | - | 23,424 | - | - |
| Police transportation | - | 10,622 | - | - |
| School lunch | - | 40,328 | - | - |
| School categorical aid | - | 621,465 | - | - |
| Plan improvement | 138,692 | - | - | - |
| Dover main | - | 14,091 | - | - |
| Emergency management | 37,674 | - | - | - |
| Police parking | 67,947 | - | - | - |
| Planning conservation | 634,479 | - | - | - |
| Police special projects | 2,910 | - | - | - |
| Youth counselor | - | 20,134 | - | - |
| Trees | 1,785 | - | - | - |
| Special programs | - | 26,472 | - | - |
| Tuition programs | 3,977 | - | - | - |

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| <u>Fund</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> | <u>Advance To Other Funds</u> | <u>Advance From Other Funds</u> |
|-------------------------|---------------------------------|-------------------------------|-----------------------------------|-------------------------------------|
| Vocational center | 2,436 | - | - | - |
| Alternative education | 79,230 | - | - | - |
| Facilities fund | 88,563 | - | - | - |
| Library fines | 19,071 | - | - | - |
| Conservation | 15,810 | - | - | - |
| Residential solid waste | 65,491 | - | - | - |
| Rec. field maintenance | 28,063 | - | - | - |
| Recreation programs | 54,511 | - | - | - |
| EPA fund | 1,500 | - | - | - |
| Capital Projects: | | | | |
| CIP FY97 | - | 2,687 | - | - |
| CIP FY98 | 7,786 | - | - | - |
| CIP FY99 | 13,419 | - | - | - |
| CIP FY00 | 514,198 | - | - | - |
| CIP FY01 | 471,039 | - | - | - |
| CIP FY02 | 2,552,056 | - | - | - |
| CIP FY03 | - | 148,802 | - | - |
| Tolend road landfill | - | 332,226 | - | - |
| Middle school | 10,005 | - | - | - |
| Rec. field construction | 373,329 | - | - | - |
| Enterprise Funds: | | | | |
| Water | 2,048,986 | 54,500 | - | - |
| Sewer | 4,706,490 | 317,400 | - | - |
| Arena | - | - | - | 944,236 |
| DIDA | 23,801 | - | - | - |
| Internal Service: | | | | |
| Fleet maintenance | 95,088 | - | - | - |
| Dover net | 37,379 | - | - | - |
| Central stores | 24,645 | - | - | - |
| Workers' compensation | 564,349 | - | - | - |
| Trust and Agency: | | | | |
| Expendable trust | 371,900 | - | - | - |
| Nonexpendable trust | 12,684 | - | - | - |
| Agency | <u>407,722</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 15,114,766</u> | <u>\$ 15,114,766</u> | <u>\$ 944,236</u> | <u>\$ 944,236</u> |

9. Due From Other Governments

Due from other governments of \$ 301,128 reported in the general fund represents tuition revenue received from area school districts in July and August 2002. The balance of \$ 843,941 reported in the special revenue funds represents amounts to be received on various expenditure driven grants.

The New Hampshire Department of Environmental Services annually reimburses the City for a portion of the principal and interest payments on

Sanitary Sewer Fund bonds. The reimbursement is based upon the amount of the State's participation in the original sewer project. The amount due from the State in future years is as follows:

| Fiscal Year Ended June 30 | Reimbursement For | | |
|------------------------------|---------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2003 | \$ 829,603 | \$ 536,943 | \$ 1,366,546 |
| 2004 | 829,603 | 483,827 | 1,313,430 |
| 2005 | 829,603 | 429,892 | 1,259,495 |
| 2006 | 829,603 | 372,210 | 1,201,813 |
| 2007 | <u>829,602</u> | <u>320,070</u> | <u>1,149,672</u> |
| Subtotal | 4,148,014 | 2,142,942 | 6,290,956 |
| 2008-2012 | <u>4,141,071</u> | <u>762,948</u> | <u>4,904,019</u> |
| Total | \$ <u>8,289,085</u> | \$ <u>2,905,890</u> | \$ <u>11,194,975</u> |

The City has accrued \$ 254,734 of interest due in fiscal year 2003, along with all principal as Due From Other Governments at June 30, 2002.

10. Property, Plant and Equipment

The following is a summary of proprietary fund type property, plant, and equipment at June 30, 2002:

| | Water Fund | Sewer Fund | Arena Fund | DIDA | Total |
|--------------------------------------|----------------------|----------------------|---------------------|------------------|----------------------|
| Land | \$ 348,522 | \$ 888,257 | \$ 251,890 | \$ - | \$ 1,488,669 |
| Buildings | 3,363,994 | 31,859,655 | 4,602,628 | - | 39,826,277 |
| Improvements other than buildings | 11,495,408 | 25,070,561 | 219,046 | - | 36,785,015 |
| Machinery and equipment | 866,167 | 1,337,578 | 180,235 | - | 2,383,980 |
| Accumulated depreciation | (6,084,286) | (24,077,784) | (653,802) | - | (30,815,872) |
| Construction in process | <u>627,161</u> | <u>1,253,859</u> | <u>-</u> | <u>17,565</u> | <u>1,898,585</u> |
| Net Property, Plant and Equipment | \$ <u>10,616,966</u> | \$ <u>36,332,126</u> | \$ <u>4,599,997</u> | \$ <u>17,565</u> | \$ <u>51,566,654</u> |

11. Accounts Payable

Accounts payable represents fiscal year 2002 invoices paid in the subsequent fiscal year.

12. Accrued Liabilities

Accrued liabilities in the general fund represents salaries earned but unpaid to City and School employees at year-end.

13. Deferred Revenues

Deferred revenues of the general fund are equal to the sum of all delinquent taxes at June 30, 2002 less property and unredeemed tax collections for the subsequent 60 days.

14. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. The City has not issued any revenue bonds. The bonds reported in the proprietary funds are repaid from proprietary fund revenues. General obligation bonds currently outstanding are as follows:

| <u>Description</u> | <u>Original Issue Amount</u> | <u>Rate</u> | <u>Maturity Date</u> | <u>Balance</u> |
|----------------------------|------------------------------|-------------|----------------------|------------------|
| Bonds Payable: | | | | |
| Public improvements 1987 | \$ 1,788,000 | 7.2868% (1) | 07/15/02 | \$ 115,000 |
| Public improvements 1988 | 3,462,000 | 7.1897% (2) | 07/15/03 | 450,000 |
| WWTP-State guaranteed 1988 | 1,295,000 | 6.9788% (2) | 07/15/03 | 145,000 |
| Public improvements 1989 | 2,816,220 | 6.7911% (1) | 07/15/04 | 555,000 |
| Public improvements 1990 | 4,414,280 | 6.9325% (1) | 01/15/06 | 1,080,000 |
| Public improvements 1991 | 2,722,500 | 6.6354% (1) | 08/15/06 | 725,000 |
| WWTP-State guaranteed 1991 | 10,500,000 | 6.6983% (1) | 07/15/11 | 5,250,000 |
| WWTP-State guaranteed 1991 | 7,300,000 | 6.5746% (1) | 01/15/12 | 3,650,000 |
| WWTP-State guaranteed 1992 | 450,000 | 5.5966% (1) | 01/15/12 | 225,000 |
| Public improvements 1993 | 1,188,338 | 5.4153% | 08/15/08 | 560,000 |
| Public improvements 1994 | 3,043,000 | 5.6100% | 08/15/09 | 1,520,000 |
| Public improvements 1995 | 3,356,711 | 5.3259% | 08/15/10 | 1,930,000 |
| Public improvements 1996 | 3,885,092 | 5.6554% | 08/15/11 | 2,400,000 |
| Energy conservation 1996 | 875,055 | 5.4059% | 01/15/12 | 502,900 |
| Public improvements 1997 | 1,002,327 | 4.8400% | 08/15/12 | 655,000 |
| Public improvements 1999 | 4,137,500 | 4.1900% | 01/15/13 | 3,135,000 |
| Public improvements 1999 | 2,179,901 | 5.5100% | 01/15/15 | 1,880,000 |
| New Middle School 1999 | 15,741,027 | 5.5800% | 01/15/20 | 13,271,493 |
| Public improvements 2001 | 22,991,400 | 4.4506% | 06/15/21 | 21,490,000 |
| Public improvements 2002 | <u>2,240,600</u> | 4.2300% | 06/15/22 | <u>2,240,600</u> |
| Total bonds payable | 95,388,951 | | | 61,779,993 |

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| <u>Description</u> | <u>Original Issue Amount</u> | <u>Rate</u> | <u>Maturity Date</u> | <u>Balance</u> |
|--|------------------------------|-------------|----------------------|----------------------|
| Other Long-Term Debt: | | | | |
| State revolving loan - Tolend landfill | 1,271,357 | 3.5625% | 09/01/13 | 1,017,086 |
| State revolving loan - Griffin well | <u>250,000</u> | 1.1875% | 11/01/03 | <u>45,298</u> |
| Total Long-Term Debt | <u>\$ 96,910,308</u> | | | <u>\$ 62,842,377</u> |

(1) Refinanced, original NIC reflected.

(2) Refinanced, new NIC reflected.

B. Future Debt Service

The annual principal and interest payments to retire all general obligation long-term debt outstanding as of June 30, 2002 are as follows:

| <u>Governmental Funds</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|----------------------|----------------------|----------------------|
| 2003 | \$ 3,998,487 | \$ 1,473,335 | \$ 5,471,822 |
| 2004 | 3,841,821 | 1,378,937 | 5,220,758 |
| 2005 | 3,620,335 | 1,302,647 | 4,922,982 |
| 2006 | 3,425,607 | 1,233,380 | 4,658,987 |
| 2007 | 3,141,087 | 1,168,906 | 4,309,993 |
| 2008 - 2012 | 13,011,609 | 5,149,017 | 18,160,626 |
| 2012 - 2017 | 7,741,750 | 4,423,061 | 12,164,811 |
| 2018 - 2022 | <u>1,834,883</u> | <u>2,702,579</u> | <u>4,537,462</u> |
| Total | <u>\$ 40,615,579</u> | <u>\$ 18,831,862</u> | <u>\$ 59,447,441</u> |

| <u>Proprietary</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2003 | \$ 2,271,739 | \$ 1,205,341 | \$ 3,477,080 |
| 2004 | 2,240,139 | 1,067,425 | 3,307,564 |
| 2005 | 2,042,490 | 945,579 | 2,988,069 |
| 2006 | 1,952,490 | 832,689 | 2,785,179 |
| 2007 | 1,707,490 | 722,258 | 2,429,748 |
| 2008 - 2012 | 8,142,450 | 2,191,386 | 10,333,836 |
| 2012 - 2017 | 2,565,000 | 654,717 | 3,219,717 |
| 2018 - 2022 | <u>1,305,000</u> | <u>164,562</u> | <u>1,469,562</u> |
| Total | <u>\$ 22,226,798</u> | <u>\$ 7,783,957</u> | <u>\$ 30,010,755</u> |

All governmental fund long-term debt will be repaid through the general fund. The City's proprietary fund future debt service is partially funded by state and as described in Note 9.

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2002 are as follows:

| <u>Purpose</u> | <u>Date Authorized</u> | <u>Amount</u> |
|--------------------------|------------------------|----------------------|
| Public improvements 2003 | 2002 | \$ <u>10,298,000</u> |

D. Maximum Debt Limit

The City is subject to state law which limits debt outstanding to a percentage (depending on how funds will be used) of its last full state valuation. Debt incurred for state required sewerage systems is not subject to the limit. The following is a summary, by purpose, of the outstanding debt of the City at June 30, 2002 and related limitations. These limits are based on the tax year 2001 base valuations for debt limits of \$ 1,820,063,750 provided by the State Department of Revenue Administration.

| <u>Purpose</u> | <u>Percent of State Assessed Value</u> | <u>Maximum Debt Limit</u> | <u>Applicable Bonds Outstanding at June 30, 2002</u> |
|---------------------------|--|---------------------------|--|
| Municipal | 3% | \$ 54,601,913 | \$ 24,265,500 |
| School | 7% | 127,404,463 | 17,987,493 |
| Water | 10% | 182,006,375 | 4,307,298 |
| DIDA | - | 5,000,000 * | 1,625,000 |
| Not subject to limitation | - | - | <u>14,657,086</u> |
| Total | | | \$ <u>62,842,377</u> |

* Debt limit is set by special legislation.

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

| | <u>Balance July 1, 2001</u> | <u>Additions</u> | <u>Balance Reductions</u> | <u>June 30, 2002</u> |
|---------------------------|-----------------------------|---------------------|---------------------------|----------------------|
| Accrued employee benefits | \$ 2,651,129 | \$ 57,635 | \$ - | \$ 2,708,764 |
| General obligation debt | 43,393,537 | 1,229,000 | (4,006,958) | 40,615,579 |
| Landfill closure | <u>11,016,013</u> | <u>-</u> | <u>-</u> | <u>11,016,013</u> |
| Totals | \$ <u>57,060,679</u> | \$ <u>1,286,635</u> | \$ <u>(4,006,958)</u> | \$ <u>54,340,356</u> |

15. Landfill Closure and Postclosure Care Costs

The City owned and operated a 55 acre landfill on Tolend Road from 1960 to 1979. On September 10, 1991 the Environmental Protection Agency issued a Record of Decision on the closure of the site, including the City

as a Potentially Responsible Party (PRP). The current estimated cost of the closure is \$ 21.8 million. The City has negotiated its preliminary share at \$ 8,166,667 of the first \$ 20 million. This amount includes the Town of Madbury. The City appropriated \$ 1.8 million within the General Fund in fiscal year 1993 through fiscal year 1996 toward the eventual closure costs and another \$ 224,138 for fiscal year 1997. \$ 260,000 was received from insurance companies through litigation. \$ 300,000 was received from the Town of Madbury for its full share. An additional \$ 317,000 was received from the State of New Hampshire for a 20% match toward costs to date. The liability of \$ 11,016,013, reported in the long-term debt account group includes an estimate of post closure cost of \$ 4,100,000.

The final allocation of the additional costs will be determined by further negotiations with the remaining seven PRPs or by court judgment. Thirty-one other PRPs have made final settlement on all costs related to the closure with EPA.

The City closed on a loan through the New Hampshire State Revolving Loan program for \$ 1,271,357 in fiscal year 1999. This covered the preliminary costs and capping design.

The City has been in negotiations with the EPA and the State of New Hampshire Department of Environmental Services to implement an alternative to the closure capping. The new technique involves bio-remediation and carries significant savings versus conventional capping. The City received approval for and is in the process of a pilot program to determine the effectiveness of this method. As a result, the City received a four year deferral of the capping requirement from EPA. EPA is scheduled to issue a final decision by the end of March 2003.

16. Contributed Capital

Contributed capital consists of funding provided to proprietary funds for facility construction from state and municipal sources. Changes in contributed capital for the year ended June 30, 2002 were as follows:

| | <u>Balance</u> <u>July 1, 2001</u> | <u>Contributions</u> | <u>Depreciation</u> <u>& Disposals</u> | <u>Balance</u> <u>June 30, 2002</u> |
|------------------------|---------------------------------------|----------------------|---|--|
| Enterprise Funds: | | | | |
| Water | \$ 1,499,794 | \$ 119,894 | \$(333,725) | \$ 1,285,963 |
| Sewer | 27,149,220 | 4,351 | (1,403,425) | 25,750,146 |
| Arena | 121,024 | 171,555 | (20,207) | 272,372 |
| Industrial Development | <u>1,162,815</u> | <u>-</u> | <u>(69,174)</u> | <u>1,093,641</u> |
| Total Enterprise | \$ <u>29,932,853</u> | \$ <u>295,800</u> | \$(<u>1,826,531</u>) | \$ <u>28,402,122</u> |

17. Reserves and Designations of Fund Equity

The City has established "reserves" of fund equity to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use. Fund "designations," which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The City used the following types of reserves and designations at June 30, 2002:

Reserved for Encumbrances - an account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Advances - an account used to segregate a portion of fund balance to indicate the noncurrent portion of advances to other funds, although a component of assets, that do not represent available, spendable resources.

Reserved for Other Purposes - represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

18. Segment Information For Enterprise Funds

The City maintains enterprise funds which provide water, sewer, recreational services and assistance in the development of an industrial park. Segment information for the year ended June 30, 2002 follows (in thousands):

| | Water | Sewer | Arena | Industrial | |
|-------------------------------|-------------|-------------|-------------|-------------|--------------|
| | <u>Fund</u> | <u>Fund</u> | <u>Fund</u> | <u>Fund</u> | <u>Total</u> |
| Operating revenues | \$ 2,265 | \$ 3,002 | \$ 730 | \$ 38 | \$ 6,035 |
| Depreciation expense | 466 | 1,798 | 124 | - | 2,388 |
| Operating income (loss) | 286 | (568) | (300) | (43) | (625) |
| Net working capital | 522 | 1,938 | (1,147) | 23 | 1,336 |
| Total assets | 13,189 | 50,075 | 4,685 | 1,085 | 69,034 |
| Long-term obligations | 4,307 | 13,640 | 4,280 | - | 22,227 |
| Grants | - | 565 | - | - | 565 |
| Current capital contributions | 86 | 5 | 205 | - | 296 |

(continued)

(continued)

| | Water | Sewer | Arena | Industrial Development | Total |
|--------------------------|--------------------|--------------------|-------------|---------------------------|-------|
| | <u>Fund</u> | <u>Fund</u> | <u>Fund</u> | <u>Fund</u> | |
| Advance from other funds | - | - | 944 | - | 944 |
| Interfund transfers in | 400 ^(A) | 335 ^(A) | - | - | 735 |
| Interfund transfers out | (292) | (300) | - | - | (592) |
| Fixed asset additions | 1,412 | 1,406 | 207 | (872) | 2,153 |

^(A) = Transferred in from Capital Reserve Funds for water and sewer projects.

19. Subsequent Events

Temporary Debt

Subsequent to June 30, 2002, the City has incurred the following additional debt:

| | <u>Amount</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> |
|------------------------|---------------------|--------------------------|-----------------------|--------------------------|
| Bond anticipation note | \$ <u>9,400,000</u> | 2.0% | 08/29/02 | 06/24/03 |

20. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims will not materially affect its financial statements taken as a whole, due to adequate insurance coverage.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

21. Post-Retirement Health Care

The City provides certain health care benefits for retired employees and will provide benefits to current employees hired prior to January 1, 1991

upon retirement. In order to participate in the City Group Health Insurance Program (the Retiree Group), the employee must be enrolled in the City group plan upon the date of retirement from the City, must be at least age 62 (age 60 with 35 or more years of service), and must be vested in the New Hampshire Retirement System. Any retirees who leave the Retiree Group may not reenter.

Persons who retire from the City with at least ten (10) years of creditable services in the New Hampshire Retirement System but prior to the minimum age 62 must maintain an unbroken participation (at retiree's expense) in the Retiree Group from the effective date of their retirement until qualifying for the City-paid premium benefit in order to become eligible for such City-paid premium benefit at a later date. Persons who have participated in both the City's group health insurance and the New Hampshire State Retirement System for at least 24 consecutive months immediately prior to retirement, but who are not vested in the New Hampshire Retirement System, may also join the Retiree Group at their own expense.

As of June 30, 2002, there were approximately 27 retirees, including eligible spouses, receiving health care benefits. The City recognizes the cost of providing these benefits as paid. These costs totaled \$ 66,030 for the fiscal year ended June 30, 2002.

22. Pension Plan

The City follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The City contributes to the New Hampshire Retirement System (the "System"), a cost-sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A41-a of New Hampshire Law assigns the system the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the New Hampshire Retirement System at 4 Chenell Drive, Concord, New Hampshire 03301-8509.

B. Funding Policy

Plan members are required to contribute between 5% and 9.30% of annual covered compensation to the pension plan. The City makes

annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A: 16, and range from 3.94% to 5.40% of covered compensation. The City's contributions to the System for the years ended June 30, 2002, 2001 and 2000 were \$ 563,105, \$ 500,315 and \$ 467,017, respectively, which were equal to its annual required contributions for each of these years.

23. Self-Insurance

The City is a self-insurer of workers' compensation for all City employees, contracting with an insurance carrier for excess liability coverage. Under the terms of its insurance coverage, the City is liable for \$ 300,000 per incident. The insurer's limit of liability is \$ 3,000,000. The City does not carry any aggregate insurance. Funding of the workers' compensation internal service fund is through charges levied to the general, special revenue and enterprise funds.

Retained Earnings and Claims Liability

The following represents changes in the Workers' Compensation Fund Retained Earnings and Claims Liability:

| | <u>Retained Earnings</u> | <u>Claims Liability</u> |
|------------------------|------------------------------|-----------------------------|
| Balance, July 1, 2001 | \$(225,392) | \$ 721,150 |
| Operating revenues | 335,963 | - |
| Claims incurred | - | (109,371) |
| Operating expenditure | (57,375) | - |
| Claims paid | <u>-</u> | <u>(110,430)</u> |
| Balance, June 30, 2002 | \$ <u>53,196</u> | \$ <u>501,349</u> |

24. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

25. GASB Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

- For the first time the financial statements will include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the City's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by the City of Dover no later than the fiscal year ending June 30, 2003; the retro-active reporting of infrastructures must be implemented no later than the year ending June 30, 2007.

CITY OF DOVER, NEW HAMPSHIRE

Enterprise Funds
Combining Balance Sheet

June 30, 2002

| <u>Assets</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Arena Fund</u> | <u>Industrial Development Fund</u> | <u>Total Enterprise Funds</u> |
|------------------------------------|-----------------------|-----------------------|-----------------------|--|---------------------------------------|
| Cash | \$ - | \$ - | \$ 600 | \$ - | \$ 600 |
| Accounts receivable: | | | | | |
| User charges | 270,484 | 372,063 | 82,867 | - | 725,414 |
| Unbilled revenue | 67,496 | 100,646 | - | - | 168,142 |
| Due from other governments | - | 8,543,819 | - | - | 8,543,819 |
| Due from other funds | 2,048,986 | 4,706,490 | - | 23,801 | 6,779,277 |
| Inventories | 185,249 | 19,622 | 1,375 | - | 206,246 |
| Investment in land | - | - | - | 1,043,641 | 1,043,641 |
| Property, plant and equipment | 10,616,966 | 36,332,126 | 4,599,997 | 17,565 | 51,566,654 |
| Total Assets | <u>\$ 13,189,181</u> | <u>\$ 50,074,766</u> | <u>\$ 4,684,839</u> | <u>\$ 1,085,007</u> | <u>\$ 69,033,793</u> |
| <u>Liabilities and Fund Equity</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 68,797 | \$ 83,029 | \$ 12,559 | \$ 736 | \$ 165,121 |
| Accrued liabilities | 96,065 | 387,476 | 50,068 | - | 533,609 |
| Deferred revenue | 53 | 67 | - | - | 120 |
| Due to other funds | 54,500 | 317,400 | - | - | 371,900 |
| Advance from other funds | - | - | 944,236 | - | 944,236 |
| Retainage payable | 33,422 | 35,647 | - | - | 69,069 |
| General obligation bonds payable | 4,307,298 | 13,640,000 | 4,279,500 | - | 22,226,798 |
| Total Liabilities | <u>4,560,135</u> | <u>14,463,619</u> | <u>5,286,363</u> | <u>736</u> | <u>24,310,853</u> |
| Fund Equity: | | | | | |
| Contributed capital | 1,285,963 | 25,750,146 | 272,372 | 1,093,641 | 28,402,122 |
| Retained earnings | 7,343,083 | 9,861,001 | (873,896) | (9,370) | 16,320,818 |
| Total Fund Equity | <u>8,629,046</u> | <u>35,611,147</u> | <u>(601,524)</u> | <u>1,084,271</u> | <u>44,722,940</u> |
| Total Liabilities and Fund Equity | <u>\$ 13,189,181</u> | <u>\$ 50,074,766</u> | <u>\$ 4,684,839</u> | <u>\$ 1,085,007</u> | <u>\$ 69,033,793</u> |

See Independent Auditors' Report.

CITY OF DOVER, NEW HAMPSHIRE

Enterprise Funds
Combining Statement of Revenues,
Expenses and Changes in Retained Earnings

For the Year Ended June 30, 2002

| | Water Fund | Sewer Fund | Arena Fund | Industrial Development Fund | Total Enterprise Fund |
|--|---------------|---------------|---------------|-----------------------------------|-----------------------------|
| Operating Revenues: | | | | | |
| Charges for services | \$ 2,217,796 | \$ 2,912,242 | \$ 703,767 | \$ 37,702 | \$ 5,871,507 |
| Other | 47,485 | 89,418 | 26,734 | - | 163,637 |
| Total Operating Revenues | 2,265,281 | 3,001,660 | 730,501 | 37,702 | 6,035,144 |
| Operating Expenses: | | | | | |
| Personnel services | 796,768 | 855,715 | 348,581 | - | 2,001,064 |
| Supplies and materials | 165,265 | 339,054 | 33,154 | - | 537,473 |
| Charges and services | 247,312 | 263,839 | 219,618 | 9,457 | 740,226 |
| Utilities | 210,362 | 302,556 | 302,489 | - | 815,407 |
| Capital outlay | 93,976 | 10,451 | 1,995 | - | 106,422 |
| Depreciation | 465,709 | 1,798,518 | 124,252 | - | 2,388,479 |
| Cost of sales | - | - | - | 71,711 | 71,711 |
| Total Operating Expenses | 1,979,392 | 3,570,133 | 1,030,089 | 81,168 | 6,660,782 |
| Operating income (loss) | 285,889 | (568,473) | (299,588) | (43,466) | (625,638) |
| Non-operating Revenues (Expenses): | | | | | |
| Interest expense | (259,524) | (876,577) | (229,307) | (21,355) | (1,386,763) |
| Intergovernmental revenue | - | 565,334 | - | - | 565,334 |
| Total Non-operating Revenue (Expenses) | (259,524) | (311,243) | (229,307) | (21,355) | (821,429) |
| Income (loss) before operating transfers | 26,365 | (879,716) | (528,895) | (64,821) | (1,447,067) |
| Other Financing (Uses): | | | | | |
| Transfers in | 400,000 | 335,000 | - | - | 735,000 |
| Transfers out | (292,245) | (300,000) | - | - | (592,245) |
| Total Other Financing (Uses) | 107,755 | 35,000 | - | - | 142,755 |
| Net income (loss) | 134,120 | (844,716) | (528,895) | (64,821) | (1,304,312) |
| Add depreciation on contributed assets | 333,725 | 1,403,425 | 20,207 | 69,174 | 1,826,531 |
| Increase (decrease) in retained earnings | 467,845 | 558,709 | (508,688) | 4,353 | 522,219 |
| Retained earnings, July 1, 2001 | 6,875,238 | 9,302,292 | (365,208) | (13,723) | 15,798,599 |
| Retained earnings, June 30, 2002 | \$ 7,343,063 | \$ 9,861,001 | \$ (873,896) | \$ (9,370) | \$ 16,320,818 |

See Independent Auditors' Report.